

Management Discussion and Analysis

Infrastructure

Business Outlook



Macau Power



Looking ahead, the upkeep of production units and cost management will be the most challenging issues in the coming period, and shall incubate a healthy platform for trial operation of the “Two-tier” tariff and power pooling systems in late 2005.

Energy

Although power shortage continues, new generation capacity coming into operation will ease the pressure of increasing demand from industrial and residential consumption.

Profitability will be hindered by rising coal costs despite the shifting of fuel cost burden to consumers based on pre-determined auto-system that became effective on 1 May 2005.

Average end-users' tariff increased by RMB0.025/kWh nationwide while the on-grid tariff in Guangdong Province rose by RMB0.019/kWh. In the case of Zhujiang Power, tariff was raised about 4.5% but could hardly offset the negative impact of the surging coal cost since late 2003. Looking ahead, upkeep of production units and cost management will be the

most challenging issues and shall incubate a healthy platform for trial operation of the “Two-tier” tariff and power pooling systems in late 2005. Four provinces, including Southern Power Grid Company in Guangdong will trial-run the power pooling system with 20% of budgeted generation quota. The overall impact on profit is expected to be minimal at the moment.

The second round public consultation and government opinion on renewal of the concession agreements of CLP Power Hong Kong Limited and Hong Kong Electric Co., Limited will be released by the end of 2005. The conclusion will be important for Macau Power since its concession agreement will expire in 2010 with an interim review in 2005.

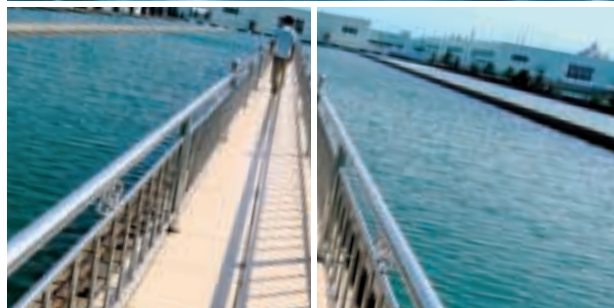
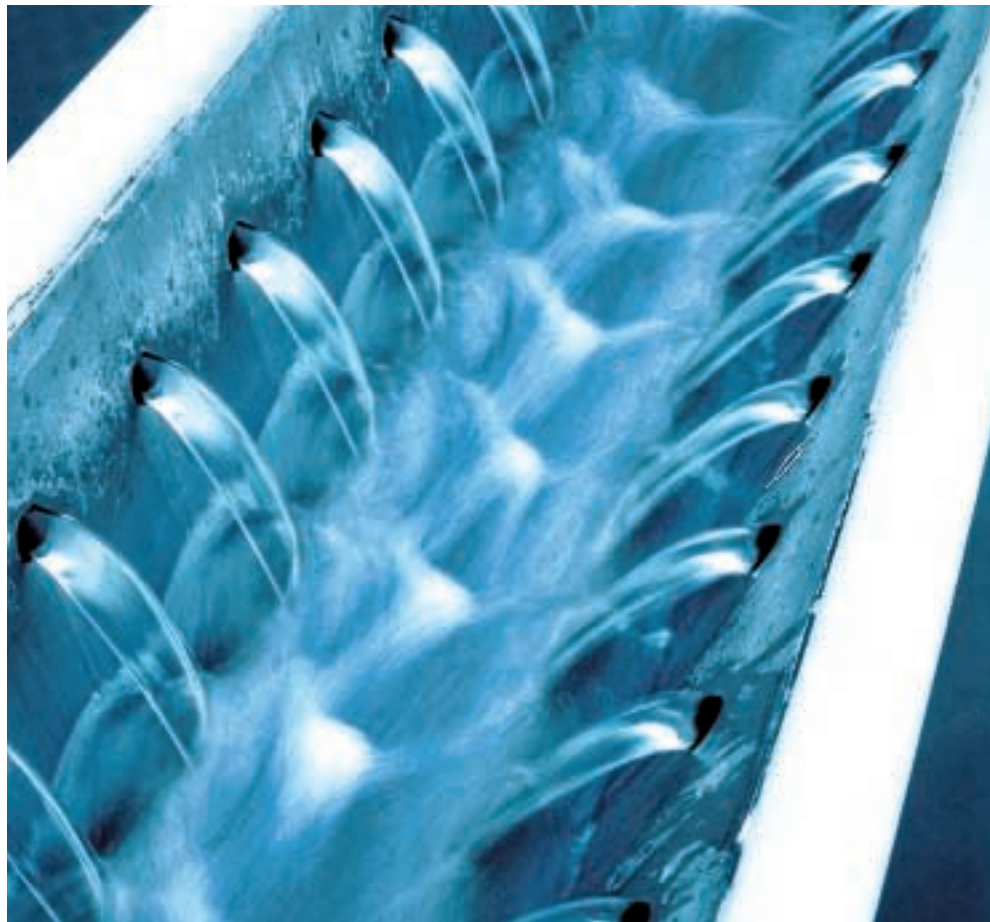
Water

The development in the Shanghai Chemical Industry Park (the "Park") is promising, as new industrialists have confirmed their investments in the Park. Our water treatment plant in the Park has already commenced its commercial operation in early April 2005 and the hazardous waste incinerator project is under construction and expected to be in operation in the second half of 2006. Furthermore, it is revealed that the most important project in Phase II development of the Park will commence construction in 2007 and will be in operation by 2009. It is believed that our projects within the Park will benefit when all these developments come on line.

New sewage treatment projects and water project opportunities will be explored in the cities where we have already established a significant presence.

The water plants in Qingdao, Chongqing and Sanya are expected to continue their volume growth. In order to capture these anticipated growth in future water demand, we have concluded new investments in phase II extension of Chongqing, Qingdao and Tanzhou water treatment plants. All of them will be in operation in mid-2006.

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Macao Water

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Guangzhou City▲
Northern Ring Road

Tate's Cairn Tunnel▶



Roads

Under the current stable financial system, flexible currency policy and macro-economic control measures being implemented at a steady pace, it is the general consensus that the Mainland China economy will continue to grow rapidly in the coming years. To accommodate the growing demand for road transport under the booming economy, the Ministry of Communications has announced a long term national expressway plan in early 2005, calling for construction of 50,000 km more expressways which involves total investment of RMB2,000 billion. This creates ample investment opportunities for toll road business. The prospect of the business is encouraging with the anticipated growth in transportation volume for both passenger and freight transports as well as surging in sales of passenger cars and trucks. On the other hand, soaring oil price will have adverse effect on traffic volume and the rise in interest rates of both Mainland China and the United States will put pressure on project financing costs that will adversely impact the AOP contribution of projects with RMB loans.

In order to lessen the impact of overloaded trucks and lower the burdens for drivers, the Ministry of Communications and the National Development and Reform Commission have jointly implemented new guidelines for the reduction of toll rate for larger trucks and standardization of vehicles classification. Toll rate scales in various provinces have been (or will be) restructured, which will negatively affect the toll rate per vehicle (though traffic flow may increase to certain extent). Nevertheless, toll road operators were compensated by a cut in business tax from 5% to 3% for expressways effective on 1 June 2005.

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Ports

It is expected that Hong Kong port will face further threats from Shenzhen with the recently approved new developments in this region, e.g. Yantian Phase 3, Dachan Bay, Nansha, Zhuhai Gaolan, etc. The modest throughput growth of Hong Kong had enabled Singapore to overtake Hong Kong as the world's number one container port in the first half of 2005.

Driven by the strong performance in economic and foreign trade growth, Mainland China reported a 24% growth in container throughput and reached 34.3 million TEUs in the first half of 2005. Despite the growing protectionism and the recent appreciation of RMB, Mainland China is expected to achieve 8% economic growth in 2005 and container throughput is targeted to reach 74 million TEUs at 24% growth. Mainland

The Ministry of Communications had recently approved the merger of Xiamen port with the nearby Zhangzhou port to enlarge Xiamen port's handling capacity. Tianjin has been positioned to transform into Northern China's international shipping and logistics centre.

China plans to invest RMB400 billion in the next five years to develop container, coal, oil and minerals terminals in Baohai Bay, Yangtze River Delta and Pearl River Delta areas.

In developing Xiamen as an international transshipment hub port in this region and in preparing for cross-straits shipping links, the Ministry of Communications had recently approved the merger of Xiamen port with the nearby Zhangzhou port to enlarge Xiamen port's handling capacity. New terminal facilities have been planned at the existing Haicang port as well as the newly-planned

Songyu port and Liuwudian port with total handling capacity of over 10 million TEUs by 2010.

Tianjin has been positioned to transform into Northern China's international shipping and logistics centre. Premier Wen Jiabao visited Tianjin in June 2005 and endorsed the latest port development strategy with a plan to invest RMB24 billion to develop ports and related facilities in the next few years. 16 more container berths are scheduled to be built and the total container handling capacity is expected to reach over 11 million TEUs by 2010.

Xiamen New World
Xiangyu Terminals

